

“The Basic Income Guarantee and Monetary Reform:
A Tale of Two Ideas”

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by Richard C. Cook

My name is Richard C. Cook, and I am the author of a book which has just been published by Thunder’s Mouth Press entitled *Challenger Revealed: How the Reagan Administration Caused the Greatest Tragedy of the Space Age*.

My book on Challenger came out last month. During the Challenger disaster investigations in 1986, I was the NASA whistleblower who disclosed the history of the flaws in the solid rocket booster joint that were the technical cause of the disaster. Today I am here to talk about another of my interests—the link between proposals for a basic income guarantee (BIG) and monetary reform.

Before NASA, I worked as a policy analyst at the U.S. Civil Service Commission, the Food and Drug Administration, and the Jimmy Carter White House under his special assistant for consumer affairs, Esther Peterson. After NASA, which I left soon after the Challenger tragedy, I spent twenty years with the U.S. Treasury Department. I retired in January 2007 after thirty-two years of federal experience.

While I am new to the USBIG Network, my interest goes back a long time. When I worked at the Carter White House, I was organizing a study group on monetary reform, which was to include income policy, when Carter was voted out of office in favor of Ronald Reagan in 1980.

The election of 1980 was a watershed in U.S. history. It was a takeover of the policy apparatus of government by the political right-wing, and it affected every aspect of American politics and culture. Those of us who remained in government but still believed we had a positive role to play in supporting the progressive aspirations of the American people thereafter kept a low profile. Even the Clinton administration made many accommodations to the conservative attitudes which had entered public life with the Reaganites and again with the Republican takeover of Congress in 1984. Democrats tend to romanticize the Clinton years, forgetting that the economic recovery of the 90s was fueled by foreign capital and ended with the bursting of the dot.com bubble and a stock market crash. From the standpoint of overall government policies, we have now lived in an atmosphere dominated by the conservative ideology for a full generation.

This period has been difficult for me personally because I would call myself a Jeffersonian-FDR democrat. But I believe we are beginning to see the pendulum swinging back in the direction of more progressive policies as the conservative ideology runs out of steam. What is left us with are economic, ethical, and fiscal disasters, along with a state of perpetual warfare in the Middle East.

My experience long ago led me to the conclusion that the most important economic issue facing our nation and the world today is income security and that it is the job of the federal government, acting as the custodian of the commonwealth of Americans as defined in the preamble of our Constitution, to do something about it.

I said income security, not job security. People in this room know the world of difference between the two, as few others do. As many have come to realize, real job security is extremely difficult to achieve in an era where technology has made so many jobs obsolete and where the rapid pace of change has destroyed the typical career patterns of a generation ago. Lately I have been reading articles by a man named Marshall Brain who says that by 2030 robots will take over fifty percent of the jobs in the U.S. economy, and I agree that the potential is certainly there.

So a basic human right to income security cannot and should not be linked with an imperative that everyone be engaged in earning a living all the time. While more can always be done to foster job creation, it will never entirely solve the income security problem. Welfare-to-work is not the answer.

I believe, as I think many of you do here at this meeting, that the right to income security must be viewed as an absolute. This right, I believe without apology, is ultimately based on a spiritual value, that every human being who comes to life on the planet has a right to a minimally secure existence, which governments exist to ensure. I believe that income security is what people must first have to express their rights to “life, liberty, and the pursuit of happiness.”

These values are being threatened in today’s political, economic, and social environment as never before in U.S. history. Since the negative income tax was proposed in 1969, our nation has marched resolutely backward in maintaining a commitment to income security due to the conservative ideology. Conservatives wanted us to believe that eliminating much of the social safety net in favor of unbridled economic license would “lift all boats” and allow individuals to prosper in ways not possible under the shelter of the welfare state. This has obviously not happened.

Instead, “trickle-down” economics has totally failed. We have more than forty-five million people without health insurance, thirty-five million without enough to eat, increasing poverty, and a declining standard of living for all but the most wealthy. After a period of decline, violent crime, especially robbery but also murder, is increasing. The housing bubble has burst, leaving millions of people facing possible loss of their homes. The federal government, with a current debt approaching \$9 trillion and \$44 trillion in unfunded liabilities, has been declared bankrupt by economists close to the Federal Reserve. Their solution? Sell more U.S. assets to China. In the last several years the dollar has lost a third of its value to the dismay of foreign investors like China who have funded the Treasury deficit. Meanwhile, our public infrastructure is crumbling, with a maintenance deficit approaching \$2 trillion according to the American Society of Civil Engineers.

After a generation of conservative rule, and in spite of three years of a balanced budget at the end of the Clinton presidency, public finance in the United States today is in crisis, if not total collapse. A quarter century of politics devoted to the dismantling of social welfare programs, privatization of public assets, huge tax cuts for the wealthy, continuing export of manufacturing jobs, deregulation of the financial industry, and huge

expenditures on the war machine have eroded the ability of the federal government to do anything meaningful about income security.

If you set this crippling of government against such facts as the \$53.4 million 2006 bonus given to the CEO of Goldman Sachs last December and the ongoing attempt by the Bush administration to conquer the Middle East by military force, you get a vivid impression of a society racing over a cliff. The article by Paul Krugman, the *New York Times*' economics columnist, in *Rolling Stone* magazine last December entitled "The Great Wealth Transfer," portrays a society that has fallen from its status as the world's greatest industrial democracy to one that is beginning to resemble a banana republic oligarchy, with a ruling class that is unbelievably rich and a population that is sinking toward a state of debt slavery and economic peonage. The facts are undeniable and well-documented.

So where does the basic income guarantee fit into this gloomy picture? In the near-term, Congress, having returned to Democratic control, may raise the minimum wage a dollar or two an hour. The ongoing fall of the dollar will promote exports and so be a factor in job creation, though those jobs will be low-paying and have few benefits. If a Democrat is elected president in 2008, we may see some new federal job creation programs or tax incentives. But BIG is not on the horizon.

Yet I don't believe the situation is hopeless in the long run. We have some examples to point to that over time could get people's attention. One is the Brazilian experiment.

The other ray of hope is that the dire economic situation can act as a stimulus for progressives to begin challenging economic fundamentals. Here is where I think the BIG movement could benefit by looking at what is going on in monetary reform, because any push to enact BIG through income redistribution is likely to face insurmountable difficulties. We are simply not going to get middle-class citizens to give up their mortgage deduction, for example, so the poor can get a break when they know that what Lou Dobbs called "the war on the middle class" is real and that it threatens their own financial existence.

Also, most Democrats are looking to the Clinton years of relative fiscal austerity as a model. The federal budget is likely to be slashed, some of the taxes on the upper brackets may be restored, and tax breaks for higher education may increase. But even if the Earned Income Tax Credit is enhanced or other types of tax credit enacted for the lower brackets, that is obviously not BIG in its full potential.

So where can the monetary reform movement enter into the picture? First, it challenges the assumption that the only ways government can get money to disburse are through taxes and borrowing. Second, it challenges the assumption that the wealth of a nation is a relatively fixed quantity—the GDP plus whatever growth rate is measured or assumed—and that the political process must decide how wealth is to be divided, with certain groups get more and others getting less.

But it has long been recognized that fiscal and tax policies can have a profound effect on levels of investment and economic activity. It has also been understood that GDP growth can be influenced by monetary policy, interest rates, and the availability of money. What has changed since the 1980s has been that the conservative revolution has greatly limited the ability of government to apply these tools while shifting more economic power to the private financial markets.

The thrust of the monetary reform movement, as least that segment of it not devoted to the introduction of local currencies, would be to shift the power of influencing the creation of wealth back to the government. One way to do this would be to create a federal authority charged with rebuilding the nation's physical infrastructure through long-term low-interest loans. The Kucinich bill for a federal infrastructure bank similar to the New Deal Reconstruction Finance Corporation is an example. It would allow for the insertion of money and investment at the state and local levels and would also create new jobs.

On the side of money and credit, the Federal Reserve System has long operated by alternately stimulating and slowing the economy through its regulation of fractional reserve banking and through actions affecting interest rates, but never in ways that have proved truly effective. This is because attempts to use liquidity to manipulate economic growth are always tied to the creation of credit that must be repaid with interest.

In my opinion, it would be much more effective for the Federal Reserve simply to give away money, as it went a long way toward doing with the slashing of long-term interest rates leading to the recent housing bubble. Hundreds of billions of dollars were pumped into the economy, but now the bill is coming due because of the enormous inflation of housing prices that has left society as a whole much worse off than when the bubble began. But the bubble can be viewed as an income program for homeowners and speculators with a substantial multiplier effect for the entire economy. According to investment analysts, fifty percent of U.S. economic growth in 2005 was due to the stimulation of the housing market.

As I indicated, it would have been simpler if the Federal Reserve, or the U.S. Treasury, simply gave away money, and what I would like to suggest is that we begin to think about issuing a BIG without charging any cost at all to the federal budget through what has been called a National Dividend.

This is not a frivolous suggestion. It was proposed by Major C.H. Douglas and the Social Credit theorists of the 1920s and started a political movement which has continued through today in Great Britain, Canada, and New Zealand. This would be money creation at its simplest and most direct, similar to the Greenbacks legislated by Congress during the Civil War. Then, Congress authorized expenditures in the amount of \$450 million, and the government simply spent the money into existence.

It was a system that worked remarkably well, one which the bankers have propagandized against ever since. Greenbacks still made up a third of the U.S. currency into the early years of the 20th century. Few people know that FDR also had Greenback authority though he never used it. It was money supposedly created out of thin air, a true fiat currency, and if people tell you that the Greenbacks caused inflation, they are wrong. What is truly inflationary is debt-based money created by the Federal Reserve. In fact, since the Federal Reserve came into existence in 1913, the dollar has lost over ninety-five percent of its value.

I would strongly recommend that BIG proponents study the Social Credit ideas carefully. This is what first got me interested in monetary reform back in the late 1970s. What C.H. Douglas was saying was that in a technologically advanced economy, production is always ahead of the income available for consumption. He said that there is no way that the population of a nation can ever earn enough money to purchase what

industry can produce. There is lag time and many inefficiencies in the distribution system. Also, there must be provision for household and business savings.

So in order to consume the production base and keep the nation's workforce employed, the government *must* introduce purchasing power. The simplest way to do it is to issue what Douglas called a National Dividend at the start of each year to everyone, without means tests, without distinction as to whether you work or not. It is a Basic Income Guarantee. Remember, this was suggested in the 1920s. In fact, Douglas had succeeded in reconciling the capitalist system to principles of economic democracy in a way that all previous European thinkers had failed to do, including Marx.

Douglas's ideas also had a strong ethical underpinning in that they postulated that the production of wealth was not just a result of the utilization of private resources or capital but of the brainpower and labor of the entire nation. People make things in a social context. All members of society contribute in some small way to the cultural fabric within which wealth is generated. So all should share in the benefits of a National Dividend. This went well beyond Marx's labor theory of value where it was the worker who ultimately created wealth to encompass every single person of past, present, and future generations. Of course Social Credit was opposed by conservatives of every stripe whose highest value was private property, private ownership of everything of value, and the exclusive claim to the profits from private enterprise.

As time went on and the conservative attitudes of the time resulted in the Great Depression, economists realized that somehow money *had* to be generated on the side of demand if nations were to survive, and this led to Keynesian economics. It was done through high taxes combined with government deficit spending. Again, to fully examine how all this worked is beyond the scope of my talk today, as is a discussion of how Keynesianism gave way to monetarism. This is the system we are all too familiar with which is basically the Federal Reserve trying to regulate the economy through raising and lowering of interest rates.

Suffice it to say that monetarism has failed miserably, the latest fiasco being the aforementioned housing bubble. Reagan-era supply-side tax cuts, along with those of George W. Bush, were an attempt to compensate for the failure of monetarism to boost demand, but the problem again was that there has not been sufficient purchasing power except through increased household debt, a fact every economist recognizes. This is why retail sales are watched so closely at Christmastime, to be sure consumers are dutifully running up their credit card charges. It's incredible that grown-ups really seem to believe this is a sign of economic health.

So I would conclude by suggesting to the BIG community to look seriously at monetary reform, especially the Social Credit ideas, for a theoretical underpinning of BIG proposals that I believe can take us farther than any system that looks like income redistribution. Again I mention the writer Marshall Brain, who advocates a \$25,000 annual stipend for every citizen as their share of societal wealth. That would certainly be one way to do it, likely a very good way. What Douglas teaches is that such a stipend does not have to be raised through taxes or income redistribution. It can simply be issued to individuals as a credit or voucher against future production. It would be a simple, effective way to introduce liquidity into the economy, far better than the debt-based system of fractional reserve banking that leads mainly to profits for the banks at the expense of everyone else.

At the same time, it is important to keep the pressure on Congress and the political system to think about BIG when they think about income and tax policy. Any progress in this direction is worthwhile. It is also critical to work toward making BIG part of the progressive political agenda. See, for example, an article in *The Progressive* a few months ago by editor Matthew Rothschild entitled, "Our Sinful Economy." It is essential to have workable proposals ready as our economy continues to stumble into the crises that are inevitable given the huge problems that exist with income maldistribution, the continuing decline of the social safety net, rising crime statistics, and the collapse of the ability of the federal government to meet the needs of the nation through the budget process.

What I am really trying to say is that the monetary reform movement can show that BIG is not only ethically and spiritually the correct attitude of society but that it is also an economic necessity. Two books on the subject which I strongly recommend are *The Lost Science of Money* by Stephen Zarlenga, head of the American Monetary Institute, and *The Grip of Death, a Study of Modern Money, Debt Slavery, and Destructive Economics* by the British author Michael Rowbothan.

Books such as these can provide help for the badly needed progressive consensus of what coherent alternative we can offer to the disastrous state of the nation and the world today. We are clearly witnessing a worldwide class war, where, as U.S. billionaire Warren Buffet has said, "If there is a class war, my class is winning." I believe that BIG, combined with monetary reform, shows this war to be totally unnecessary.

One final note. You might reasonably ask why haven't such monetary reform concepts as Social Credit and the National Dividend been adopted or even seriously studied by mainstream economics? The answer is obviously political. Mainstream economics is dominated by concepts favorable to control by the private financial industry. The last thing the bankers want is money in the hands of the rank-and-file of society that is not tied in some way to a monetary debt.

There have been times in American history when people were bolder and understood much better the consequences of our being what President Martin Van Buren called a "bank-ridden society." Jefferson saw control of the economy by banks as the death-knell of freedom. During the last third of the 19th century we had the Populist and Greenback parties which focused on monetary issues. There was William Jennings Bryan's "Cross of Gold" speech when he ran for president in 1896. But with the passage of the Federal Reserve Act of 1913 the door of monetary progressive politics was slammed shut and has remained tightly fastened for almost a century. Progressives everywhere should be prying that door open again if not resolutely kicking it down.

Thank you for the opportunity to meet with you today at this important forum, and I look forward to many future encounters.